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SPECIAL REPORT
House DPC
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MARCH 26, 2001

TO PAY FOR THE HUGE TAX CUT, THE BUSH BUDGET SHORTCHANGES AGRICULTURE PROGRAMS

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Candidate George Bush campaigned on a promise to "provide a strong safety net" for America's farm families. Unfortunately, *President* Bush's budget amounts to little more than a vague I.O.U. to farm communities.

According to the Congressional Budget Office and the Bush Administration's estimate of the cost of the Department of Agriculture's (USDA's) "core programs," the Bush budget cuts discretionary appropriations for USDA by $1.7 billion – <u>or by 8.6%</u> – below the level needed to maintain purchasing power at the FY 2001 level. In addition, the Bush budget dismisses on-going emergency support for struggling farmers as "one-time" for "short-term" needs. Bush ignores three years of emergency farm assistance that cost over $18 billion. His budget provides no direct support for this year's anticipated need for additional farm income assistance.

The Bush budget claims to be based on "cautious estimating assumptions", but the reality is Bush puts his tax cut ahead of honestly budgeting for desperately needed farm assistance. Farm groups, including the American Farm Bureau and the National Farmers Union, the nation's two largest farm organizations, support increasing the USDA budget for FY 2002 by at least $9 billion to include income assistance. "Delaying this work only harms those producers who are unable to obtain production financing without at least some signal that Congress will approve additional assistance." *American Farm Bureau, Farm Policy Statement.*

<u>THE RECESSION GEORGE BUSH DOESN'T WANT TO TALK ABOUT</u>

The current farm recession is now entering its fourth year and ranks among the deepest since 1915. This includes the agriculture recessions the nation experienced during the Great Depression, World War II, and the 1980's farm financial crisis.

Net cash income over the last three years fell, in real dollars, to its lowest point since the Great Depression. Put another way, last year's prices were a 27-year low for soybeans, a 25-year low for cotton, a 14-year low for wheat and corn, and an 8-year low for rice. With essentially no improvement in commodity prices over last year, farmers are left with tighter cash flows and serious questions about how they are going to make ends meet.

Farm debt this year will surpass $180 billion for the first time in 16 years, and farm production costs are expected to increase by $1.5 billion. The impact of the skyrocketing cost of natural gas is now having an impact throughout the farm sector in the form of higher costs for nitrogen fertilizer and irrigation.

Repercussions are being felt from the Asian economic crisis that began three years ago. In addition, three years of good weather worldwide have created bumper crops all around the globe. This has driven down prices and cut into potential markets for US producers.

Compounding this situation for American producers is the strength of the US dollar, which has contributed to a substantial increase in the relative cost of US commodities overseas.

Despite some progress in lowering trade barriers through the World Trade Organization, the fact remains that the average tariff on US farm products in other countries is 62 percent, while the average US tariff on goods coming into the US is around 12 percent. Additionally, the European Union continues to outspend the US on agriculture, having spent $47 billion last year alone.

It is precisely these conditions that have led Congress to provide $18.1 billion in emergency income assistance to farmers over the last three years. This assistance was clearly needed and there was no question about whether or not Congress would act.

FARMERS NEED HELP NOW

House Agriculture Chariman Combest and Ranking Member Stenholm wrote a joint letter on March 15th to the Budget Committee, stating "We recommend that, rather than providing additional assistance on an emergency, ad hoc basis, the budget allocation for agriculture be permanently increased." This year, a broad coalition of commodity and farm groups representing an overwhelming majority of American farmers wrote to Congress requesting $9 billion for FY 2002 and $12 billion for each year thereafter.

Unfortunately, the Republican Budget cuts funding for the Agriculture Department (USDA). In fact, on March 21st, on a straight party line vote of 21 to 16, Republicans on the House Budget Committee voted down a Democratic Amendment that would have increased USDA farm assistance programs by $9 billion in FY2002 and by $45 billion over the next ten years.

This decision not to increase funding for agriculture will slow efforts to find a lasting solution for strengthening our farm safety net, and will force Congress to once again consider ad hoc aid for farm families. The House Agriculture Committee has already begun the process of developing legislation to provide multi-year additional income assistance. The Agriculture Committee is currently holding hearings during which commodity and producer groups are making specific recommendations on what Congress can do to bolster the farm safety net. Consideration of a new farm bill, however, is ignored by the Republican budget.

Ad hoc assistance is, by its very nature, unpredictable. Producers and lenders alike are understandably nervous about the inclusion of any dollar figure for ad hoc assistance as they prepare their cash flow calculations for producer financing. The current unpredictability of assistance affects not only producers and lenders, but ripples throughout the rest of the agricultural sector. When farmers and ranchers are unsure about income, they don't spend money with retailers, input suppliers, equipment manufacturers, or anyone else.

SQUEEZING OUT CRUCIAL PROGRAMS

The reliance upon ad hoc spending for agriculture not only hurts producers, it also can put additional pressure on funding for other important farm programs. For example, pressure will be put on funding for conservation programs, which have greatly decreased soil erosion from wind and water. These programs are not one-time investments; they are influenced by the weather and must be maintained year after year. We spend far less today on conservation programs than we did 50 years ago. Consider these unmet conservation needs:

- The Wetlands Reserve Program has 3,153 applications pending to enroll another 562,000 acres; this is nearly 60 percent more than is currently enrolled.

- The Environmental Quality Incentives Program (EQIP) has 197,000 applications to enroll an additional 66.6 million acres. The net cost to meet this demand would be over $1 billion.

- The Wildlife Habitat Incentives Program has 3,017 applications pending to improve an additional 564,000 acres over the current 1.4 million acres.

These programs deliver services and benefits that the private sector cannot provide. While the private sector would realize few benefits by carrying out these programs, the public benefits are enormous.

Rural development spending is another example of well-considered public spending in one area that forestalls greater spending in another. The strong economy that our nation has enjoyed these past several years has created improved employment in rural areas, as well as in cities and suburbs. The opportunity for off-farm income is helping many smaller farm families survive, when they might not otherwise do so.

Survey data from 1999 shows that farm households where the primary occupation was farming, but where sales were less than $250,000, comprise about 30% of all farms. Off-farm income provided 85 percent of total average household income for farms with sales less than $100,000. Off-farm income provided 37 percent of total average household income for farms with sales from $100,000 to $250,000.

Unfortunately, despite widespread complaints in recent years that short staffing at USDA has slowed services for farmers, the Bush budget calls for further cuts in USDA offices. The funding levels for staff are also clearly below what is needed to meet current workloads.

IGNORING RISKS TO FARMERS

Bush proposes “to eliminate” $1.1 billion provided last year in emergency funding for pest suppression, flood aid and other related programs, dismissing them as “one-time” only. Unfortunately, many farm communities continue to struggle with the threat of pests, disease and natural disasters. USDA is acting now to prevent the European outbreak of foot-and-mouth disease from spreading to the U.S. California’s wine and grape industry is still facing billions in economic loss if Pearce Disease, spread by certain flying insects, is not brought under control. In addition, citrus canker, plum pox, and Asian Longhorn beetle continue to threaten crops. In addition, massive cuts in U.S. Army Corps and in Federal Emergency Management programs could leave many communities more vulnerable to flood or other natural disasters.

In addition, the Bush budget originally proposed to cut $940 million out of the federal crop insurance program that protects farmers when they lose their crops to natural disasters. Bush proposed to cut the reimbursement rate paid to insurers, making it less profitable to – and less likely that they would sell insurance. The Administration quickly retreated from this disastrous proposal, calling it a "mistake."

THE "RAINY DAY" FUND IN MONSOON SEASON

The Administration has stated that *"we may need to increase spending for our farmers"* and maintains that Bush's proposed contingency fund could be used to help farmers. Claims on the contingency fund, however, are expected to significantly exceed the money available. "The budget blueprint suggests less than $100 billion would be available for additional spending in the next four years, with virtually no money for contingencies – or increased spending for defense, agriculture or other items – in 2005." *Washington Post, March 22, 2001.*

In fact, the situation is worse than the *Washington Post* reported. While the House GOP Budget Resolution claims the "contingency reserve" is $517 billion over ten years, it is the result of funding the Bush prescription drug plan out of the Medicare Part A surplus – thereby shortening Medicare's solvent life. If Medicare is fully protected and the prescription drug plan is funded from the "contingency reserve," only $364 billion remains. That leaves less than $65 billion over the next five years for such competing contingencies as defense expansions, economic misfortune, or estimating errors.

In two of the next five years, virtually no money will be available for ANY of these contingencies. In fact, in 2005, the budget excluding Social Security and Medicare will be in deficit with absolutely no money available to fund new farm programs that year. Here are the on-budget surplus funds that are available as a "contingency fund" over the next five years:

FY2002	$ 20.1 billion
FY2003	$ 25.6 billion
FY2004	$ 16.5 billion
FY2005	$ – 0.6 billion
FY2006	$ 2.7 billion

By also putting the hopes for further assistance for farmers into this illusory fund, the Bush budget pits farmers against Candidate Bush's calls for significantly increasing defense spending.

Just as the American people deserve to know what impact the tax cut will have on the priorities that are important to them, America's farmers and ranchers must be able to predict with some degree of certainty what their income assistance will be so that they can work with their bankers to make plans for the next five years.

An over-extended, much-promised contingency fund provides no certainty for our producers. At the time when they are in the greatest need, producers of our nation's food and fiber should not have to concern themselves with the adequacy of illusory contingency fund monies, with competing needs of other key programs, or with raiding Social Security or Medicare trust fund monies. There is no other fiscally prudent or rational alternative than to provide permanent authority to address agriculture's needs in the budget resolution.